

Report
of the
Examination of
River Falls Mutual Insurance Company
River Falls, Wisconsin
As of December 31, 2018

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. REINSURANCE.....	6
III. FINANCIAL DATA	9
IV. SUMMARY OF EXAMINATION RESULTS.....	13
V. CONCLUSION.....	26
VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS	27
VII. ACKNOWLEDGMENT.....	28



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

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August 16, 2019

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Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

In accordance with your instructions, an examination has been performed as of
December 31, 2018, of the affairs and financial condition of:

RIVER FALLS MUTUAL INSURANCE COMPANY
River Falls, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of River Falls Mutual Insurance Company (the company) was made in 2011 as of December 31, 2010. The current examination covered the five-year period beginning January 1, 2014, and ending December 31, 2018, and included a review of such subsequent transactions deemed essential to complete this examination.

The "Summary of Examination Results" contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination

were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including a compilation engagement covering preparation of the annual statement and preparation of the annual tax return. On December 13, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on July 1, 1876, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the River Falls Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there was one amendment to the articles of incorporation and no amendments to the bylaws. Article II of the articles of incorporation was updated to include two new counties, Barron and Polk, to the company's territory.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following counties:

Barron	Dunn
Pepin	Pierce
Polk	St. Croix

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one year with premiums payable on the advance premium basis. The company also charges a policy fee equal to \$30 for a homeowner's policy and \$40 for a farmowner's policy. In addition, there is an installment fee of \$3 for each quarterly or semi-annual payment. There is also a \$10 late fee and a \$20 reinstatement fee.

Business of the company is acquired through four agents, one of whom is a director of the company. Agents are presently compensated for their services as follows:

Type of Policy**Compensation**

All lines of business, new and renewal
(the one agent/director does not receive
renewal commissions)

15%

The company's manager has authority to adjust small claims, for which he does not receive any specific compensation or reimbursement. A majority of the claims, however, are adjusted by outside adjustors.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of seven members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Richard Ruemmele	Retired (Executive—Cenex Harvest States)	Prescott, WI	2020
Jeff Holst	Farmer	Hager City, WI	2022
Jeffrey Dusek*	Company Manager	River Falls, WI	2021
Timothy Wiff	Farmer	Spring Valley, WI	2022
George Matzek	Farmer	River Falls, WI	2022
Dan Puhmann	Farmer	Hager City, WI	2021
Allen Hanson	Farmer/Township Employee	River Falls, WI	2020

*This director is also a current agent and the Mutual Manager of the company.

Members of the board currently receive \$175.00 for each annual or district meeting, \$150.00 for each quarterly meeting attended, and \$0.545 per mile for travel expenses.

Section 612.13 (1m), Wis. Stat., requires:

- (1) If a town mutual has fewer than nine directors, no more than one director may be an employee or representative of the town mutual; and

- (2) Employees and representatives of a town mutual may not constitute a majority of its board.

The company is in compliance with these requirements.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2018 Compensation
Richard Ruemmele	President	\$ 6,200
Jeff Holst	Vice President	1,400
Jeffrey Dusek	Secretary-Treasurer, Manager	110,597

Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, director fees, and rental income as applicable.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee	Executive Committee	Investment Committee
Richard Ruemmele	Richard Ruemmele	Richard Ruemmele
Jeffrey Dusek	Jeff Holst	Jeff Holst
Dan Puhmann	Jeffrey Dusek	Jeffrey Dusek
Allen Hanson		Timothy Wiff
George Matzek		

Growth of Company

The growth of the company during the examination period as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2018	\$807,044	914	\$185,309	\$4,556,463	\$3,831,659
2017	801,899	910	29,760	4,501,545	3,611,645
2016	758,819	901	164,019	4,115,380	3,430,470
2015	757,483	905	205,369	3,771,428	3,062,767
2014	730,483	880	207,389	3,534,649	2,768,036
2013	706,119	888	98,703	3,110,325	2,358,132

The ratios of gross and net premiums written to surplus as regards policyholders during the examination period was as follows:

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Net	Ratios Gross
2018	\$1,223,309	\$815,066	\$3,831,659	21%	32%
2017	1,277,523	795,122	3,611,645	22	35
2016	1,226,780	750,702	3,430,470	22	36
2015	1,307,848	777,784	3,062,767	25	43
2014	1,302,808	739,892	2,768,036	27	47
2013	1,290,189	757,507	2,358,132	32	55

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Composite Ratio
2018	\$352,771	\$318,363	\$807,044	44%	39%	83%
2017	574,490	265,613	801,899	72	33	105
2016	301,664	262,596	758,819	40	35	75
2015	236,575	245,524	757,483	31	32	63
2014	221,829	217,355	730,483	30	29	60
2013	386,105	213,951	706,119	55	28	83

Surplus has increased consistently in the five-year exam period, with an overall increase of 62%. Net premiums earned and admitted assets have also increased. The year 2017 saw significantly higher losses due to a number of fires which resulted in net income of only \$29,760, the smallest in the five-year exam period; the other four years averaged \$190,522. Policies in force saw only one year having fewer policies than the year before, ending the five-year exam period 4% higher than the first year in the exam period. Both gross and net writing ratios declined as a percentage of surplus in the exam period. The percentage declines are due to a consistent increase in surplus and declines in gross premiums written as well as a small increase in net premiums written.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty with six (6) coverage sections. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2019
Termination provisions:	Either party may terminate this Contract of Reinsurance as of 12:01 a.m. Central Standard Time on any January 1 st by giving to the other party at least ninety (90) days advance notice in writing.

The coverages provided under this treaty are summarized as follows:

- | | |
|----------------------|---|
| Type of contract: | Class A – Casualty Excess of Loss Reinsurance |
| Lines reinsured: | All business written by the company classified as casualty or liability business |
| Company's retention: | \$10,000 each and every loss occurrence including loss adjustment expenses |
| Coverage: | 100% of loss in excess of \$10,000 each and every loss occurrence subject to the following limits: <ol style="list-style-type: none">\$1,000,000 per occurrence, single limit, combined injury and property damage liability\$1,000,000 split limits, in any combination of bodily injury and property damage liability\$25,000 for medical payments, per person\$25,000 medical payments, per accident for personal lines |
| Reinsurance premium: | 45.45% of net premium |
| Ceding commission: | None |
- | | |
|----------------------|--|
| Type of contract: | Class B – First Surplus Reinsurance |
| Lines reinsured: | All business written by the company classified as property business |
| Company's retention: | First surplus retention is \$600,000. The company may cede on a pro-rata basis (in excess of retention) up to \$2,000,000

In addition, any location which is in excess of \$2,500,000 property coverage may be submitted to the reinsurer for special acceptance. The reinsurer may accept or reject each such risk submitted |

Coverage:	Pro rata portion of every loss, including loss adjustment expense corresponding to the amount of risk ceded
Reinsurance premium:	Pro rata portion of all premiums, fees, and assessments charged by the company corresponding to the amount of each risk ceded hereunder
Ceding commission:	15% of the premium ceded and 15% profit commission based on the reinsurer's net profit on business reinsured under this contract
3. Type of contract:	Class C-1 – First Per Risk Excess of Loss
Lines reinsured:	All business written by the company classified as property business
Company's retention:	\$75,000 per risk per loss occurrence
Coverage:	100.0% of each and every loss, including loss adjustment expense, in excess of retention of \$75,000 per risk, in respect to each and every risk resulting from one loss occurrence up to \$100,000
Reinsurance premium:	6.0% of the company's net premium
Ceding commission:	None
4. Type of contract:	Class C-2 – Second Per Risk Excess of Loss
Lines reinsured:	All business written by the company classified as property business
Company's retention:	\$175,000 per risk per loss occurrence
Coverage:	100.0% of each and every loss, including loss adjustment expense, in excess of retention of \$175,000 per risk, in respect to each and every risk resulting from one loss occurrence up to \$425,000
Reinsurance premium:	3.00% of the company's net premium written
Ceding commission:	None
5. Type of contract:	Class D-1 – First Aggregate Excess of Loss
Lines reinsured:	All business written by the company
Company's retention:	75% of company's net premium written
Coverage:	100% of the company's aggregate net losses, including loss adjustment expenses, which exceed 75% of the company's net premiums written, up to 65% of net premiums written
Reinsurance premium:	6.45% of the company's net premium written
Ceding commission:	None

6. Type of contract:	Class D-2 – Second Aggregate Excess of Loss Reinsurance
Lines reinsured:	All business written by the company
Company's retention:	140% of company's net premium written
Coverage:	100% of the company's aggregate net losses, including loss adjustment expenses, which exceed 140% of the company's net premiums written
Reinsurance premium:	2.00% of the company's net premium
Ceding commission:	None

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2018, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

**River Falls Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2018**

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in company's office	\$ 100	\$	\$	\$ 100
Cash deposited in checking	295,261			295,261
Cash deposited at interest	1,264,043			1,264,043
Bonds	1,611,696			1,611,696
Stocks and mutual fund investments	1,179,236			1,179,236
Real estate	9,938		9,938	
Premiums, agents' balances and installments:				
In course of collection	19,309		80	19,229
Deferred and not yet due	160,739			160,739
Investment income accrued		14,333		14,333
Reinsurance recoverable on paid losses and LAE	3,317			3,317
Electronic data processing equipment	5,584			5,584
Fire dues recoverable	357			357
Reinsurance commission receivable	2,568			2,568
Furniture and fixtures	1,654		1,654	
Other non-expense related non-admitted assets software	<u>5,936</u>	<u> </u>	<u>5,936</u>	<u> </u>
Totals	<u>\$4,559,738</u>	<u>\$14,333</u>	<u>\$ 17,608</u>	<u>\$4,556,463</u>

**River Falls Mutual Insurance Company
Statement of Assets and Liabilities (cont.)
Liabilities and Surplus**

Net unpaid losses	\$ 81,393
Loss adjustment expenses unpaid	6,300
Commissions payable	10,262
Federal income taxes payable	3,200
Unearned premiums	560,208
Reinsurance payable	33,734
Amounts withheld for the account of others	4,032
Payroll taxes payable (employer's portion)	1,402
Other liabilities:	
Expense related:	
Accounts payable	2,579
Accrued property taxes	84
Nonexpense related:	
Premiums received in advance	<u>21,610</u>
Total Liabilities	724,804
Policyholders' Surplus	<u>3,831,659</u>
Total Liabilities and Surplus	<u>\$4,556,463</u>

River Falls Mutual Insurance Company
Statement of Operations
For the Year 2018

Net premiums and assessments earned		\$807,044
Deduct:		
Net losses incurred	\$276,048	
Net loss adjustment expenses incurred	76,723	
Net other underwriting expenses incurred	<u>318,363</u>	
Total losses and expenses incurred		<u>671,134</u>
Net underwriting gain (loss)		135,910
Net investment income:		
Net investment income earned	25,510	
Net realized capital gains (losses)	<u>(9,801)</u>	
Total investment gain (loss)		15,709
Other income (expense):		
Policy and installment fees	36,387	
All other	<u>6,003</u>	
Total other income (expense)		<u>42,390</u>
Net income (loss) before federal income taxes		194,009
Federal income taxes incurred		<u>8,700</u>
Net Income (Loss)		<u>\$185,309</u>

**River Falls Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2018**

The following schedule is a reconciliation of surplus as regards policyholders during the last five years as reported by the company in its filed annual statements:

	2018	2017	2016	2015	2014
Surplus, beginning of year	\$3,611,645	\$3,430,470	\$3,062,767	\$2,768,036	\$2,358,132
Net income (loss)	185,309	29,760	164,019	205,369	207,389
Net unrealized capital gain or (loss)	41,014	157,203	205,647	79,397	215,202
Change in nonadmitted assets	<u>(6,309)</u>	<u>(5,788)</u>	<u>(1,963)</u>	<u>9,965</u>	<u>(12,687)</u>
Surplus, End of Year	<u>\$3,831,659</u>	<u>\$3,611,645</u>	<u>\$3,430,470</u>	<u>\$3,062,767</u>	<u>\$2,768,036</u>

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2018, is accepted.

Examination Reclassifications

	Debit	Credit
Cash deposited at interest	\$	\$1,047,940
Bonds	1,034,000	
Stock and mutual fund investments	<u>13,940</u>	<u> </u>
Total Reclassifications	<u>\$1,047,940</u>	<u>\$1,047,940</u>

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Underwriting—It is recommended that the company maintain complete inspection documents including pictures for all new policies and scheduled renewal inspections.

Action—Compliance.

2. Accounts and Records—It is recommended that the company no longer accept payments for other insurance companies so that all cash receipts and cash funds of the company are at all times kept separate and distinct from any personal, agency or other funds in accordance with s. Ins 13.05 (4) (a), Wis. Adm. Code.

Action—Compliance.

3. Accounts and Records—It is recommended that the company file unclaimed property reports with the State of Wisconsin as required by ch. 177, Wis. Stat.

Action—Compliance.

4. EDP Equipment—It is recommended that the company report leasehold improvements separately as nonadmitted assets in the Annual Statement.

Action—Compliance.

5. Net Unpaid Losses—It is recommended that the company routinely review reserves to verify that they are reasonable and consistent with other loss settlements in weather-related multiple-claim situations and that the company make as informed an update as possible for continuing open claims.

Action—Compliance.

6. Net Unpaid Losses—It is recommended that the company follow up with the claimant 30 days after the initial request for estimates and otherwise adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof, were reviewed for the period under examination and for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for disclosing to its board of directors any material interest or affiliation on the part of its officers, directors, or key employees which conflicts, or is likely to conflict, with the official duties of the position. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	\$ 250,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	500,000
Policy limit	500,000
Professional liability:	
Each Claim	4,000,000
Policy limit, all claims in period	4,000,000
Commercial business owners:	
Per occurrence	1,000,000
Policy limit	2,000,000
Medical expense	5,000
Directors & officers liability	
Each claim/aggregate	4,000,000

Type of Coverage	Coverage Limits
Commercial liability	
Commercial umbrella, each occurrence	1,000,000
General aggregate	2,000,000

Underwriting

The company does have a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business, with the qualification that the renewal inspections are done on an as needed basis as determined by the manager.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses. This committee meets once a year and discusses and reviews large or unusual claims with assistance from the manager who is also on the board of directors.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained.
2. A proper cash receipts journal is maintained.
3. A proper cash disbursements journal is maintained.
4. A proper general journal is maintained.
5. A proper general ledger is maintained.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2018.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computers is limited to people authorized to use the computers.

An IT vendor backs up the computers daily and the backups are stored on an external hard drive and in a cloud-based storage system.

The company has manuals documenting the use of its software and outlining the steps to complete specific tasks. The manuals assist in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs. The examination determined that the level of documentation contained in the manuals was reasonable.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of data on its computer, the loss of a key employee, or the destruction of its office building. The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
- (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Approval and Supervision

The company utilizes the services of an investment advisor who has discretionary authority over the company's investment portfolio. The agreement provided by the company did not contain all appropriate provisions considered to be necessary for the protection of the company. Specifically, the agreement did not specify how investment transactions, holdings, and portfolio performance will be communicated to the company's board of directors, including the frequency, content, and means of reporting. It is recommended that the company amend the agreement with its investment advisor to include a description of how investment transactions, holdings, and portfolio performance will be communicated to the company's board of directors, including the frequency, content, and means of reporting.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1. Liabilities plus \$300,000	\$1,024,804
2. Liabilities plus 33% of gross premiums written	1,132,574
3. Liabilities plus 50% of net premiums written	1,132,337
4. Amount required (greater of 1, 2, or 3)	1,132,574
5. Amount of Type 1 investments as of 12/31/2018	<u>3,171,000</u>
6. Excess or (deficiency)	<u>\$2,038,426</u>

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash

\$511,464

The above asset is comprised of the following types of cash items:

Cash in company's office	\$ 100
Cash deposited in banks—checking accounts	295,261
Cash deposited in banks at interest	1,264,043
Reclass to bonds	(1,034,000)
Reclass to stocks and mutual fund investments	<u>(13,940)</u>
 Total	 <u>\$ 511,464</u>

Cash in company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one bank. Verification of checking account balances was made by obtaining confirmations directly from the depositor and reconciling the amounts shown thereon to company records.

According to the Town Mutual Annual Statement Instructions, town mutual insurers are required to report certificates of deposit (CDs) purchased in the secondary market at a premium or discount, (also known as traded or brokered CDs), on Schedule C, Section 1 – Bonds, rather than Schedule B – Cash Deposited at Interest, and amortize the premium or discount over the remaining life of the investment. After reporting them correctly in previous years, the company erroneously reported brokered certificates of deposits amounting to \$1,034,000 as cash deposited at interest on Schedule B – Cash Deposited at Interest, instead of Schedule C, Section 1 – Bonds, on its 2018 annual statements. This misclassification caused line 3 – Cash Deposited at Interest of the Statement of Admitted Assets, to be overstated and line 4 – Bonds, to be understated by the same amount of \$1,034,000. The company also reported a money market mutual fund amounting to \$13,938 incorrectly as cash deposited at interest on Schedule B – Cash Deposited at Interest, instead of reporting it on Schedule D, Section 1, Part 2 – Mutual Funds, as required by the Town Mutual Annual Statement Instructions. This caused line 3 – Cash Deposited at Interest of the Statement of Admitted Assets, to be overstated and line 5 – Stock and Mutual Fund Investment, to be understated

by the same amount of \$13,938. Further, in order to reclassify brokered CDs from bonds to cash deposited at interest, and the money market mutual fund from mutual funds to cash deposited at interest, the company reported them as sold on Schedule L – Net Realized Capital Gains on Invested Assets, with consideration of approximately \$1,047,938 that was not received. As a result, line 11 a – Proceeds From Bonds Disposed, of the Statement of Cash Flows, includes the approximately \$1,047,938 that was not received, and lines 18 b – End of the Year Cash and 18 c – Net Change in Cash and Invested Cash, are overstated by the same amount. Certain other exhibits and schedules were affected by this reporting error, however, none of the other misstatements were determined to be material. The examination reclassifications are shown in the section of this report captioned “Examination Reclassifications.” Prior to the adoption of this report, the company re-filed its 2018 financial statements to properly classify its investments and correct misstated balances on the Statement of Cash Flow and other affected schedules and exhibits. It is recommended that the company report its investments in certificates of deposit purchased in the secondary market and in money market mutual funds in accordance with the OCI Town Mutual Annual Statement Instructions on all future financial statements.

Cash deposited in banks at interest represents savings accounts and certificates of deposit at three depositories. Deposits were verified by direct correspondence with the respective depositories. Interest received during the year 2018 totaled \$22,336 and was verified to company cash records. This amount was properly restated at \$3,348 to exclude interest from brokered CDs. Rates of interest earned on cash deposits ranged from 0.0% to 1.6%. Accrued interest on cash deposits totaled \$5,543 at year-end. This amount was properly restated at \$140 to exclude accrued interest from brokered CDs.

Book Value of Bonds **\$2,645,696**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2018. Bonds owned by the company are in a custodial account.

Bonds were verified by review of a confirmed custodian year-end statement of the company’s investments. Bond purchases and sales for the period under examination were checked to brokers’ invoices and advices. As described in the section of this report captioned “Cash and

Invested Cash” above, the company misclassified certain certificates of deposit purchased in the secondary market as cash deposited at interest, resulting in overstating cash and understating bonds by \$1,034,000. The examination reclassification is included in the section of this report captioned “Examination Reclassification.”

Interest received during 2018 on bonds amounted to \$50,412 and was traced to cash receipts records. This amount was properly restated at \$67,254 to include interest from brokered CDs.

Accrued interest of \$8,790 at December 31, 2018, was checked and allowed as a non-ledger asset. This amount was properly restated at \$14,193 to include accrued interest from brokered CDs.

Stocks and Mutual Fund Investments **\$1,193,176**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2018. Stocks owned by the company are primarily held in a custodial account, with two issues held in the company’s safe.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. As described in the section of this report captioned “Cash and Invested Cash” above, the company misclassified a money market mutual fund as cash deposited at interest instead of reporting it as a mutual fund, resulting in overstating cash and understating investments in stock and mutual funds by \$13,940. The examination reclassification is included in the section of this report captioned “Examination Reclassification.”

Dividends received during 2018 on stocks and mutual funds amounted to \$8,280 and were traced to cash-receipts records. This amount was properly restated at \$10,014 to include money market mutual fund dividends.

Premiums, Agents' Balances in Course of Collection **\$19,229**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of detailed premium records verified the accuracy of this asset.

Premiums Deferred and Not Yet Due **\$160,739**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company's detailed list of deferred premiums verified the accuracy of this asset.

Investment Income Accrued **\$14,333**

Interest due and accrued on the various assets of the company at December 31, 2018, consists of the following:

Cash at interest	\$ 5,543
Bonds	<u>8,790</u>
Total	<u>\$14,333</u>

In the company's refiled annual statement as of December 31, 2018, which corrected misclassifications of a money market mutual fund and brokered CDs and related errors in various schedules, investment income accrued consists of the following:

Cash at interest	\$ 140
Bonds	<u>14,193</u>
Total	<u>\$14,333</u>

Reinsurance Recoverable on Paid Losses and LAE **\$3,317**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2018, under its contract with the reinsurer. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **\$5,584**

The above balance consists of computer hardware and software, net of depreciation as of December 31, 2018.

Fire Dues Recoverable **\$357**

This asset represents the amount overpaid to the State of Wisconsin for 2018 fire dues. The examiners reviewed the company's fire department dues calculation and found this asset to be correctly calculated.

Reinsurance Commission Receivable**\$2,568**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2018, under its contract with the reinsurer. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

LIABILITIES AND SURPLUS

Net Unpaid Losses

\$81,393

This liability represents losses incurred on or prior to December 31, 2018, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2018, with incurred dates in 2018 and prior years. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	\$336,809	\$362,346	\$(25,537)
Less: Reinsurance recoverable on unpaid losses	<u>255,415</u>	<u>243,612</u>	<u>11,803</u>
Net Unpaid Losses	<u>\$ 81,394</u>	<u>\$118,734</u>	<u>\$(37,340)</u>

The examination team concluded that, although net unpaid losses determined by the examination team were greater than net unpaid losses reported by the company as of December 31, 2018, the difference was not material for the purpose of this examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims that were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained enough investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses

\$6,300

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2018, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is to use an estimate based on a three-year ratio of paid loss adjustment expenses to paid losses.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **\$10,262**

This liability represents the commissions payable to agents as of December 31, 2018. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

Federal Income Taxes Payable **\$3,200**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2018. The examiners reviewed the company's 2018 federal tax provision and found this liability to be reasonably stated.

Unearned Premiums **\$560,208**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology. A recalculation of a sample from the company's detailed list of unearned premiums verified the accuracy of this liability.

Reinsurance Payable **\$33,734**

This liability consists of amounts due to the company's reinsurer at December 31, 2018, relating to transactions which occurred on or prior to that date. December 2018 invoices from Wisconsin Reinsurance Corporation were verified by the examiners in support of this account balance.

Amounts Withheld for the Account of Others **\$4,032**

This liability represents employee payroll deductions in the possession of the company at December 31, 2018. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **\$1,402**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2018, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **\$2,579**

These amounts represent balances accrued in the normal course of business operations that are approximately the same on a month to month to basis.

Accrued Property Taxes **\$84**

This amount represents normal amounts accrued for property taxes due.

Premiums Received in Advance **\$21,610**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2018. The examiners reviewed 2018 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

River Falls Mutual Insurance Company is a town mutual insurer currently operating in a six-county area of northwestern Wisconsin. The company has been in business providing insurance to its policyholders for 141 years.

Gross premiums written fluctuated but declined 5.2% over the five-year period, as net premiums written also fluctuated but increased 7.6% overall during the same period. Income was positive every year in the five-year examination period, with the smallest income in 2017 of \$29,760 due to end of year losses. The combined ratio remained under 100% in all but one year under examination. Admitted assets increased 46% and policyholders' surplus increased 62%.

The company was in compliance with each of the six recommendations of the prior examination report. The current examination resulted in two recommendations. The recommendations relate to investment approval and supervision and the proper classification of invested assets. The examination resulted in no adjustment to surplus.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Investment Approval and Supervision—It is recommended that the company amend the agreement with its investment advisor to include a description of how investment transactions, holdings, and portfolio performance will be communicated to the company's board of directors, including the frequency, content, and means of reporting.
2. Page 19 - Cash and Invested Assets—It is recommended that the company report its investments in certificates of deposit purchased in the secondary market and in money market mutual funds in accordance with the OCI Town Mutual Annual Statement Instructions on all future financial statements.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, James Vanden Branden of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "John A. Coyle". The signature is written in a cursive style with a large initial "J" and "C".

John A. Coyle
Examiner-in-Charge